JUN 28 1955

HAROLD B. WILLEY, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 191

AMERICAN MARKING CORPORATION, a corporation, and JOHN K. JACKSON,

Petitioners,

vs.

ADOLPH GOTTSCHO, INC., a corporation,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF NEW JERSEY AND APPENDIX.

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Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE SUPREME COURT OF THE STATE OF NEW JERSEY.

To the Honorable, the Chief Justice of the United States, and the Associate Justices of the Supreme Court of the United States:

Your petitioners pray that a writ of certiorari issue to review the judgment of the Supreme Court of the State of New Jersey.

A.

Opinions Below.

The opinion of the Supreme Court of New Jersey is reported in 18 N. J. (1955), appended hereto at page 15. The opinion of the Superior Court of New Jersey, Chancery Division, the trial court, is reported in 35 N. J. Super. (1954), appended hereto at page 23.

B.

Statement of the grounds on which the jurisdiction of this Court is invoked.

The Supreme Court of New Jersey has decided a federal question of substance, not heretofore determined by this Court, to wit, does the issuance of a patent constitute a public disclosure so as to terminate pre-existing cause of action predicated on the use of secrets disclosed by said patent? The opinion of the State Court was postulated on a determination of the existing federal law on the subject. An examination of the federal law will reveal that the Courts of Appeal in the various circuits are in conflict, and that the divergence of views expressed therein should be resolved by this Court. The settlement of the law in this field of patent litigation is of substantial importance in the uniform administration of justice.

The final judgment of the Supreme Court of New Jersey, affirming the trial court, was entered on May 23, 1955.

The jurisdiction of this Court is invoked pursuant to 28 U. S. C. A. 1257(3). Your petitioners claim the infringement of a right, privilege and immunity under the Constitution of the United States, Amendment XIV, Section 1, and an abridgment of the constitutional powers of the United States relating to patents, and the law applicable thereto, contained in Article I, Section 8, Clause 8 and Article III, Section 2.

C.

Statement of the question involved.

Whether the Supreme Court of New Jersey committed error in deciding a federal question of substance, to wit, does the issuance of a patent constitute a public disclosure

so as to terminate a pre-existing cause of action predicated on the use of secrets disclosed by said patent?

D.

Constitutional provisions involved.

Article XIV, Section 1:

> "All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws."

Article I, Section 8, Clause 8:

> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and discoveries;"

Article III, Section 2:

> "The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;. . ."

E.

Summary statement of the matter involved.

The Superior Court of New Jersey found the following facts, which were incorporated in the opinion of that Court reported in 35 N. J. Super. (Ch. Div. 1954). The

Supreme Court of New Jersey was satisfied that those factual findings were supported by the evidence. Therefore, the summary statement of the matter involved will be confined primarily to the facts found by the Courts of the State of New Jersey. The following facts are quoted directly from the opinions of the respective Courts:

> "For a number of years the plaintiffs have been engaged in the design, manufacture, and sale of automatic marking and printing machines used to imprint code numbers, lettering, and other marks of identification on packages. It appears from the evidence that in the packaging industry for many years, it had been the practice to buy packages on which appeared the imprinting when purchased, or that the packages were bought flat and there would be imprinting applied before placing the object in the particular carton. The purpose and the function of the machines involved here is to provide a means whereby that imprinting or coding or whatever it might be, may be done after the carton had been packed and put through the assembly line—taking the case of the large machine, the Markocoder, as part of an assembly line—so that it would work in with our standards of manufacture in this country, the assembly line method of starting at one end and going right through to completion.
>
> "The plaintiff commenced in about 1948 to develop the secrets involved here, and with respect to some it may have started earlier, and basically they involved three machines: The Rolacoder, the Rolaprinter and the Markocoder 3M.
>
> "In 1948 the plaintiff hired the defendant John K. Jackson. This hiring was the result of some conversations had between the defendant Jackson and the plaintiff's officer Ira Gottscho. The conversations were started earlier in the year following the Packaging Show—which it is agreed was always held in the spring—and these conversations were

renewed in the summer or fall. He was first hired as a salesman, and shortly thereafter as a design engineer (R., p. 39);* then I believe in June 1949 he was made assistant general manager and continued as such until February of 1950, when he was made chief engineer. In that position he continued, I believe, until he was discharged in September of 1950.

"It was during this time that the plaintiff alleges substantially all the secrets here involved were perfected by experimentation and trial-and-error. The plaintiff claims that at the time of the hiring or before Ira Gottscho hired the defendant Jackson on behalf of the plaintiff corporation, that they had a discussion in which Jackson agreed to keep confidential all that information he received. This is disputed by the defendant Jackson; but for the purposes of this case it seems to me unnecessary to determine that, because I am satisfied from the nature of the employment in which the defendant Jackson was engaged that the Plaintiff corporation thought a confidential relationship existed within the meaning of that term as expressed in the opinion of Judge Goldmann in the case of *Sun Dial Corporation* v. *Rideout, et al.,* decided by the Appellate Division in January of this year and filed January 6, 1954 (29 N. J. Super. 361).

"The defendant had no knowledge of, or experience with, imprinting or coding machines prior to his employment with the plaintiff. While he had for many years been employed in one engineering capacity or another by different substantial organizations, particularly in the packaging industry, the record is absolutely barren of any evidence that he had had any experience whatsoever with coding or imprinting (R., p. 40) machines. Any information and knowledge he obtained as to the design, construction and manufacture of imprinting and coding machines like

* References to the record are contained in the appendix filed by petitioners in the court below, 9 copies of which were filed in this Court.

those in issue here, were acquired by him while he was employed by the plaintiff corporation (R., p. 41).

"The defendant, has a capacity and perhaps an unusual capacity, for retaining that which he has done and copying it, and perhaps making that which he has done a little prettier; in other words, dressing it up. I think his engineering ability in that regard cannot be denied, and I think in many respects the machines he manufactured are more dressed up, more appealing to the eye, than the plaintiff's although in my view they have in them the principles and information with respect to which he acquired knowledge while in the plaintiff's employ.

"I cannot find in the evidence that the plaintiff has sustained the burden that he actually took from the plaintiff physical designs or drawings or blueprints from which he designed the Cadet, the Major and the Commander.

"However, I am satisfied that the design and construction of all three and the appearance of all three to some extent, are sufficiently similar to those of the plaintiff's products, namely, the Rolacoder, the Rolaprinter, and the Markocoder 3M, that the inescapable inference must be drawn that in his mind there were so ingrained the principles he had acquired, that without resort to the actual blueprints or copies thereof he was capable of redesigning them and having them manufactured by Reinke, which company, incidentally, had manufactured the products of the plaintiff (R., p. 43)."

The trial judge found as a fact "that sufficient precautions were taken in view of the nature and type of the secrets involved." There is no basis for this conclusion because there were no precautions as such which were taken. Plaintiff claimed only two precautions: first, the engineering department as such was kept separate from the other employees (at first in a separate building, later in a sepa-

rate room) and second, that the alleged trade secrets were imparted only to trusted employees and not to the employees in general (R., pp. 72, 73). While this was plaintiff's only claim to precaution, the proofs showed that the trusted employees had never been told that anything whatsoever was "secret" or "confidential" or "restricted". Of these trusted employees, a number testified:

a. Hirschey, a plaintiff's witness, admitted on cross examination that Ira Gottscho, the plaintiff's president and the only one who knew most of the secrets (R., p. 211) never told him that anything was secret or confidential (R., p. 274). He admitted that no measures were taken to guard the alleged secrets (R., p. 275) and no precautions were taken as such (R., pp. 280, 281). While he was one who imparted secrets to the defendant Jackson, he never, on any occasion, told Jackson that a secret was involved (R., pp. 279, 280).

b. Kuett testified that at no engineering meeting did Ira Gottscho, who supervised the meetings, ever disclose anything which he said was secret (R., p. 284) or confidential (R., p. 285).

c. Jackson, the defendant, and one of the "five trusted employees" (R., pp. 75, 76) denied that the word "secret" or "confidential" was ever used during his employ with plaintiff (R., p. 320).

None of the other engineering employees who were trusted testified to precautions. The defendant, Jackson, could never have known that secrets were involved because the word was never mentioned—the shutting of a door was the only indication of secrecy (R., pp. 149, 150).

At the time of hiring, nothing was said to any plaintiff's employee which indicated the possible use of trade secrets, no agreement of secrecy was required (R., pp. 74, 75). Only Hirschey, who had a written contract of employment, was restricted or limited (R., p. 148). None of the

mechanics in plaintiff's factory were restricted or bound to secrecy; on the contrary, they worked from blueprints of the machines, built them and could have duplicated them (R., pp. 81, 82). Moreover, Michael Derrico, plaintiff's assistant general manager, admitted that when he took charge just before Jackson's discharge, there was a "loose pattern of operations", there was no control over confidential information, he was trying to accomplish it (R., pp. 61, 62, 69-71).

Walter Turner, a former assistant superintendent of plaintiff, who attended the engineering meetings, testified that he had never been told that anything with respect to plaintiff's machines was secret or confidential (R., p. 287).

Similarly with Leonard Guida, a former plaintiff's engineering draftsman, who attended the engineering meetings—nothing was said to be either secret or confidential (R., p. 294).

O'Brien, a sales agent formerly with plaintiff, testified that salesmen and sales agents were given instructions on how to demonstrate the three machines in issue to the general public (R., p. 298).

While the trial judge concluded that sufficient precautions were taken, the foregoing renders it obvious that there is no evidence on which such a conclusion can be based.

The trial judge also found that some of the secrets are completely disclosed, some are substantially disclosed, some completely disclosed standing alone but only partially disclosed in combination (R., p. 47). Yet, he gave no effect to such disclosures in his decision.

The trial judge found that "in time, with the expenditure of money, by trial and error, by design and redesign * * * any person could copy all the plaintiff's secrets and could thus acquire a knowledge of all the secrets * * *."

The trial judge found that the defendant "could not have manufactured them as readily except by the prior knowledge he obtained" (R., pp. 47, 48).

In reaching this conclusion, the trial judge overlooked and ignored the following disclosures by plaintiff:

1. Disclosures to its mechanics in the form of blueprints which permitted everyone of them to duplicate the machines in question (R., pp. 81, 82).

2. Disclosures to subcontractors who built all three of the machines in issue—no restrictions or indications of secrecy was imposed or even attempted. The purchase orders contained no restrictions (R., p. 88). Kucklinsky built machines for plaintiff with no precautions whatsoever (R., p. 127). Kucklinsky even retained the tracings from which the blueprints were made (R., p. 78). Basso Engineering Company built the Markocoder 3M for plaintiff with the latter's blueprints with no precautions and no requirements as to secrecy (R., p. 26). Moreover, two of plaintiff's subcontractors commercialized plaintiff's secrets and plaintiff did nothing about it (R., pp. 69, 152, 153). Except for the original defendant Reinke, there were no precautions taken to prevent any subcontractor from duplicating plaintiff's machines (R., pp. 85, 86) and the only reliance on Reinke was Jackson's statement to Ira Gottscho that "there was nothing to worry about * * *" (R., p. 85).

3. There is an admitted disclosure in the machines themselves. Ira Gottscho, the plaintiff's president, admitted, despite the court's conclusion to the contrary, that a competitor without the expenditure of money, time, skill and the process of elimination could build one of plaintiff's machines (R., p. 116). He also admitted that an experienced equipment builder could build one of plaintiff's machines merely by disassembling it and measuring its parts, without the necessity of blueprints (R., p. 117). Kucklinsky, one of plain-

tiff's subcontractors, admitted that by examination of the defendant's machines and without drawings or instructions, he could duplicate them within four to six weeks (R., pp. 300-302).

4. Disclosures of the secrets alleged by the issuance of patents granted to the plaintiff (See supplemental R., p. 10a). Proof was adduced which indicated that all but one of the alleged secrets was disclosed in patents granted to the plaintiff. Furthermore, when asked by the trial judge

> "Are there any drawings singly or in combination which would disclose the secrets claimed"?

The president of plaintiff testified, "I believe that those secrets which have been reduced to a patent that has been issued, the secret may be disclosed in the patent drawings and the patent application" (R., p. 107).

The trial judge held, contrary to defendant's contention, that as a matter of law, trade secrets are not disclosed by the issuance of a patent. In this, we believe, he erred.

Regardless of the disclosures, the trial judge restrained defendants because "he could not have manufactured them (the machines) as readily except by the prior knowledge he obtained. He could do it without the expenditure of research, effort, time, and money which the general public itself would have to do * * *." The trial judge erred in applying so novel a theory. Where there are disclosures of the kind indicated here, there are no secrets for a court to guard.

The Supreme Court of the State of New Jersey, in addition to what has heretofore been presented, found the following facts:

> "While its action was pending in the Chancery Division the United States Patent Office issued several patents to the plaintiff. These disclose some

of the plaintiff's secrets though not all nor most of them. Jackson did not learn any of the secrets from the patents; he learned them in confidence while in the plaintiff's employ and improperly disclosed and used them long before the patents were issued. He contends, nevertheless, that the patents constituted public disclosures which automatically terminated the plaintiff's pre-existing cause of action against him and the Marking Corporation to the extent that it related to secrets disclosed by the patents. Although there are decisions which suggest support for his position, we believe that reason and the weight of authority are to the contrary."

F.

Specific portions and reference to the record of the Matter supporting the assertion that the Court's rulings were of a nature to bring the case within the statutory jurisdictional provision.

Ruling of the Superior Court of New Jersey, appended hereto at page 25:

"In addition, on the motion to dismiss at the end of the plaintiff's case the defendant contended that because of the issuance of letters patent with respect to certain of the alleged secrets, while this case was pending, the Court no longer had jurisdiction over the subject matter covered by the patent; and further argued that as to those alleged secrets which were not included in the letter patent issued, but which were disclosed in the application, that there was a public disclosure which entitled the defendant to a dismissal of the action. These motions were denied for the reasons then stated.

"It seems to me that whatever the law may be elsewhere—and I question that that is the law elsewhere—it did not appear to be the law in New

Jersey or in the Third Circuit, nor did it appear to be the law in the Sixth or Seventh Circuits. As to New Jersey and the Third Circuit, refer to *Stone* v. *Gross and Graselli Chemical Co.*, 65 N. J. Eq. 756 (E. & A. 1903); *Thiberg* v. *Bach*, 107 F. Supp. 639, affirmed 203 F. 2d 956 (3d Cir. 1953)."

Ruling of the Supreme Court of New Jersey, appended hereto at page 19:

"While its action was pending in the Chancery Division the United States Patent Office issued several patents to the plaintiff. These disclose some of the plaintiff's secrets though not all nor most of them. Jackson did not learn any of the secrets from the patents; he learned them in confidence while in the plaintiff's employ and improperly disclosed and used them long before the patents were issued. He contends, nevertheless, that the patents constituted public disclosures which automatically terminated the plaintiff's pre-existing cause of action against him and the Marking Corporation to the extent that it related to secrets disclosed by the patents. Although there are decisions which suggest support for his position, we believe that reason and the weight of authority are to the contrary. See *Shellmar Products Co.* v. *Allen-Qualley Co.*, 87 F. 2d 104, 109 (7th Cir. 1937), *cert. denied*, 301 U. S. 695, 81 L. ed. 1350 (1937); *A. O. Smith Corp.* v. *Petroleum Iron Works*, 74 F. 2d 934, 935 (6th Cir. 1935); *Franke* v. *Wiltschek*, 209 F. 2d 493, 495 (2d Cir. 1953); *Thiberg* v. *Bach*, 107 F. Supp. 639, 642 (D. N. J. 1952), *aff'd.* 203 F. 2d 956 (3rd Cir. 1953); *International Industries* v. *Warren Petroleum Corp.*, 99 F. Supp. 907, 913 (D. Del. 1951); *McKinzie* v. *Cline*, 197 Ore. 84, 252 F. 2d 564, 569 (1953); *Julius Hyman & Co.* v. *Velsicol Corp.*, 123 Col. 563, 233 P. 2d 977, 999 (1951), *cert. denied*, 342 U. S. 670, 96 L. ed. 654 (1951). But *cf. Conmar Products Corp.* v.

Universal Slide Fastener Co., 172 F. 2d 150 (2d Cir. 1949); *Picard* v. *United Aircraft Corp.*, 128 F. 2d 632 (2d Cir. 1942), *cert. denied*, 317 U. S. 651, 87 L. ed. 524 (1942); *Darsyn Laboratories* v. *Lenox Laboratories*, 120 F. Supp. 42 (D. N. J. 1954), *aff'd.*, 217 F. 2d 648 (3rd Cir. 1954)."

G.

Reasons relied on for allowance of writ.

The Supreme Court of New Jersey decided a federal question of substance, to wit, "Does the issuance of a patent constitute a public disclosure so as to terminate a pre-existing cause of action predicated on the use of secrets disclosed by said patent"?

The Supreme Court of New Jersey resolved this question in the negative, and, in so doing, stated that it relied on what it believed to be the greater weight of authority in the field of existing federal law and recognized in its opinion a divergency of view among the Courts of Appeal of the several circuits. In coming to such a conclusion in its opinion, the Supreme Court of New Jersey cited not all but some of the cases which were not in accordance with the "stated" weight of federal authorities.

The divergency is best demonstrated as follows:

Those cases decided by Courts of Appeal holding for the negative are:

Shellmar Products Co. v. *Allen-Qualley Co.*, 87 F. 2d 104, 109 (7th Cir. 1937), cert. denied, 301 U. S. 695, 81 L. ed. 1350 (1937);

A. O. Smith Corp. v. *Petroleum Iron Works*, 74 F. 2d 934, 935 (6th Cir. 1935);

Franke v. *Wiltscheck*, 209 F. 2d 493, 495 (2d Cir. 1953);

Thiberg v. *Bach*, 107 F. Supp. 639, 642 (D. N. J. 1952), *Aff'd.*, 203 F. 2d 956 (3rd Cir. 1953).

Those cases decided by Courts of Appeal holding for the affirmative, urged by petitioners, are as follows:

Darsyn Laboratories v. *Lenox Laboratories*, 120 F. Supp. 42 (D. N. J. 1954), aff'd., 217 F. 2d 648 (3rd Cir. 1954);

Conmar Products Corp. v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (2d Cir. 1949);

Schreyer v. *Casco Products Corp.*, 97 F. Supp. 159, 190 F. 2d 921 (2d Cir. 1951);

Ferroline Corporation v. *General Aniline & Film Corporation*, Decided October 21, 1953, 207 F. 2d 912 (7th Cir.);

Picard v. *United Aircraft Corp.*, 128 F. 2d 632 (2d Cir. 1942);

Huszar v. *Cincinnati Chemical Works*, 172 F. 2d (6th Cir. 1949);

MacBeth-Evans Glass Co. v. *General Electric Co.*, 246 Fed. 695 (6th Cir. 1917).

Conclusion.

A writ of certiorari should be issued by this Honorable Court for the reasons stated and in the public interest, to insure the uniform administration of justice in the field of patent litigation.

Respectfully submitted,

AMERICAN MARKING CORPORATION

By ANTHONY COZZONE
President

JOHN K. JACKSON

APPENDIX.

The Opinion of the Supreme Court of New Jersey is Reported in 18 N. J. (1955).

"JACOBS, J.

"The plaintiff Adolph Gottscho, Inc. duly instituted its action in the Chancery division seeking injunctive and other relief against its former employee, Jackson, and the other named defendants; its complaint alleged that Jackson had in confidence learned the plaintiff's trade secrets while in its employ and that he and the other defendants were improperly using them. After a lengthy trial Judge Speakman made complete factual and legal findings in the plaintiff's favor; they are embodied in an opinion reported at 35 N. J. Super. (Ch. Div. 1954). We are satisfied that his factual findings are supported by the evidence and that his legal findings conform with the principles recently expressed in *Sun Dial Corp.* v. *Rideout,* 29 N. J. Super. 361 (App. Div. 1954), *aff'd.* 16 N. J. 252 (1954). Accordingly, we affirm the judgment entered below without additional comment except on two legal issues which have been stressed here by the appellants but were not involved in the *Sun Dial* case.

I

"The defendant John K. Jackson and the defendant Alfred Reinke, president of the defendant Gus Reinke Machinery & Tool Company, controlled the defendant American Marking Corporation. The complaint charged that the Marking Corporation was formed by Jackson and Reinke for the purpose of making and selling machines similar to the plaintiff's machines and that the Tool Company was employed to perform the machinery and assembly operations; it sought injunctive and other relief,

including damages, against all of the defendants. After the case had been partially tried, an agreement dated November 17, 1952 was signed by Jackson, Reinke, the Marking Corporation and the Tool Company; it provided for Reinke's withdrawal from the Marking Corporation and for the cessation of the Tool Company's operations for the Marking Corporation as soon as pending word was completed. Thereafter, under date of June 4, 1953, the plaintiff entered into an agreement with Reinke and the Tool Company which provided, in part, that Reinke and the Tool Company would not, for a period of eight years, manufacture any marking or imprinting machines similar to the plaintiff's and that the plaintiff would discontinue its pending action 'only as against Reinke and the Tool Company, and shall not claim any relief against them by way of injunction or damages in said action'. A stipulation dated June 4, 1953 between the attorneys for plaintiff and the attorneys for Reinke and the Tool Company set forth that the pending 'action shall be dismissed only as to the defendants Alfred Reinke and Gus Reinke Machinery and Tool Co., with prejudice, and without costs to either party'. The defendants contend that this stipulation constituted a release of two of the four defendant joint tortfeasors and legally operated as a release of all of them. See *Vattani* v. *Damiano*, 9 N. J. Misc. 290 (Cir. Ct. 1931). But *cf. Judson* v. *Peoples Bank & Trust Co. of Westfield*, 17 N. J. 67, 85 (1954).

"The history, purpose and limits of the doctrine that the release of one joint tortfeasor releases his co-tortfeasors have been extensively dealt with elsewhere. See *McKenna* v. *Austin*, 134 F. 2d 659 (App. D. C. 1943); *Prosser, Torts*, 1107 (1941); *Salmond, Torts*, 90 (11th ed. 1953); *Winfield, Torts*, 205 (6th ed. 1954); *Prosser, Joint Torts and Several Liability*, 25 Cal. L. Rev. 413, 422 (1937); 24 *So. Cal. L. Rev.* 466 (1951); 18 *U. of Cin. L. Rev.* 378 (1949); 11

The Opinion of the Supreme Court of New Jersey is Reported in 18 N. J. (1955).

Modern L. Rev. 230 (1948). *Salmond, supra,* expressed the common law rule to be that the release applies to all even though this was not the intention of the parties 'the reason being that the cause of action which is one and indivisible, having been released, all persons otherwise liable thereto are consequently released'. This rather metaphysical approach finds little acceptance in modern times and it is not at all surprising that recent decisions have sought to rest the doctrine on the equitable basis that there may be but a single satisfaction for a wrong and to confine it accordingly. Thus in *Moss* v. *Cherdak,* 114 N. J. L. 332, 334 (E. & A. 1935) Justice Perskie stated that the doctrine was founded on a sound principle of justice, namely, that 'there can be but one satisfaction'; and in *Judson* v. *Peoples Bank & Trust Co. of Westfield, supra,* Justice Brennan similarly noted that it was rooted 'in sound and just principle that there may be but one satisfaction for a tortious wrong'. In the latter case this Court indicated approval of the view, which is being received throughout the states with increasing favor, that the issue of whether a separate settlement with one joint tortfeasor is made in full satisfaction or is made as a lesser compromise with the purpose of pursuing the other tortfeasors is a factual one which will properly turn on the intention of the parties. See *McKenna* v. *Austin, supra; Bolton* v. *Ziegler,* Ill. F. Supp. 516, 523 (D. Iowa (1953)); *Gronquist* v. *Olson,* 64 N. W. 2d 159 (Sup. Ct. Minn. 1954). Dean Prosser, *supra,* at 1110, points out that in many jurisdictions there has been a definite retreat from the rule of the common law that a release of one joint tortfeasor necessarily releases the others and forcefully suggests the desirable rule to be 'that a plaintiff should never be compelled to surrender his cause of action against any wrongdoer unless he has intentionally done so, or unless he has received such full compensation that he is no longer

entitled to maintain it'. See *Seavey, Cogitations on Torts,* 53 (1954).

"The plaintiff here sought to restrain each of the four defendants from appropriating its trade secrets and it likewise sought an accounting from each of the defendants. An injunction against an accounting by one defendant could not fully protect the plaintiff nor satisfy its claims as against the others and, under these circumstances, it may be doubted that the defendants may strictly be considered as joint tortfeasors within the common law doctrine sought to be invoked by them. But even if they are so considered, we are satisfied that in the instant matter there never was any release within the proper application of that doctrine. See *Judson* v. *Peoples Bank & Trust Co. of Westfield, supra; Gronquist* v. *Olson, supra.* The stipulation dated June 4, 1953 contained no words whatever of release; it simply provided that the action shall be dismissed 'only as to the defendants Alfred Reinke and Gus Reinke Marking and Tool Co.' The intention of the parties seems wholly clear; the action was to be dismissed as against the two parties named but was to be continued in full force as against Jackson and the Marking Corporation. There was never satisfaction in any sense or degree of the claims for injunction and accounting which had been asserted against Jackson and the Marking Corporation. Under these circumstances Jackson and the Marking Corporation may not justly claim that they were released; on this issue the opinion in *Judson* v. *Peoples Bank & Trust Co. of Westfield, supra,* may be deemed controlling. Indeed, if it be still necessary to express the matter in traditionally artificial concepts, the stipulation may be viewed, both in terms and purpose, as a covenant not to sue rather than a general release. See *Roseville Trust Co.* v. *Mott,* 85 N. J. Eq. 297, 300 (Ch. 1915); *Aljian* v. *Ben Schlossberg, Inc.,* 8 N. J. Super. 461, 466 (Law Div. 1950); *Frosser, supra* at 1110.

The Opinion of the Supreme Court of New Jersey is Reported in 18 N. J. (1955).

II.

"While its action was pending in the Chancery Division the United States Patent Office issued several patents to the plaintiff. These disclose some of the plaintiff's secrets though not all nor most of them. Jackson did not learn any of the secrets from the patents; he learned them in confidence while in the plaintiff's employ and improperly disclosed and used them long before the patents were issued. He contends, nevertheless, that the patents constituted public disclosures which automatically terminated the plaintiff's pre-existing cause of action against him and the Marking Corporation to the extent that it related to secrets disclosed by the patents. Although there are decisions which suggest support for his position, we believe that reason and the weight of authority are to the contrary. See *Shellmar Products Co.* v. *Allen-Qualley Co.*, 87 F. 2d 104, 109 (7th Cir. 1937), *cert. denied*, 301 U. S. 695, 81 L. ed. 1350 (1937); *A. O. Smith Corp.* v. *Petroleum Iron Works*, 74 F. 2d 934, 935 (6th Cir. 1935); *Franke* v. *Wiltschek*, 209 F. 2d 493, 495 (2d Cir. 1953); *Thiberg* v. *Bach*, 107 F. Supp. 639, 642 (D. N. J. 1952), *aff'd.* 203 F. 2d 956 (3rd Cir. 1953); *International Industries* v. *Warren Petroleum Corp.*, 99 F. Supp. 907, 913 (D. Del. 1951); *McKinzie* v. *Cline*, 197 Ore. 84, 252 F. 2d 564, 569 (1953); *Julius Hyman & Co.* v. *Velsicol Corp.*, 123 Col. 563, 233 P. 2d 977, 999 (1951), *cert. denied*, 342 U. S. 670, 96 L. ed. 654 (1951). But *cf. Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (2d Cir. 1949); *Picard* v. *United Aircraft Corp.*, 128 F. 2d 632 (2d Cir. 1942), *cert. denied*, 317 U. S. 651, 87 L. ed. 524 (1942); *Darsyn Laboratories* v. *Lenox Laboratories*, 120 F. Supp. 42 (D. N. J. 1954), *aff'd.* 217 2d 648 (3rd Cir. 1954).

"In the *Franke* case the plaintiff sought an injunction and accounting from the defendants who misappropriated trade secrets which they had learned in confidence; in

response to the contention that the secrets had been revealed by an expired patent, the court said:

> 'Defendants argue that the heart of plaintiffs' process was revealed by an expired patent, and that the improvements thereon were unpatentable applications of mechanical skill. This totally misconceives the nature of the plaintiffs' right. Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs' detriment. This duty they have breached. Junker *v.* Plummer, 320 Mass. 76 N. E. 2d 667, 165 A. L. R. 1449, citing 4 Restatement, Torts Sec. 757 and comment *a* (1939); Peabody *v.* Norfolk, 98 Mass. 452; Vulcan Detinning Co. *v.* American Can Co., 72 N. J. Eq. 387, 67 A. 339, 12 L. R. A., N. S., 102; Tabor *v.* Hoffman, 118 N. Y. 30, 23 N. E. 12, 16 Am St. Rep. 740; Spizelman *v.* Rabinowitz, 270 App. Div. 548, 61 N. Y. S. 2d 138, appeal denied 270 App. Div. 921, 62 N. Y. S. 2d 603; Extrin Foods, Inc. *v.* Leighton, 202 Misc. 592, 115 N. Y. S. 2d 429. See also Smith *v.* Dravo Corp., supra, 7 Circ., 203 F. 2d 369; Schreyer *v.* Casco Products Corp., 2 Cir., 190 F. 2d 921, certiorari denied 342 U. S. 913, 72 S. Ct. 360, 96 L. Ed. 683; 4 Restatement, Torts Sec. 757 and comment *a* (1939); Nims, The Law of Unfair Competition and Trade-Marks Secs. 141, 143a, 148 (4th Ed. 1947); Note, Protection and Use of Trade Secrets, 64 Harv.

L. Rev. 976, 979, 982; cases collected in annotated note 170 A. L. R. 449, 488-490.'

"In the *Hyman* case the court held that disclosures in patent applications did not bar the plaintiff's action to restrain the defendants from appropriating its trade secrets; in the course of its opinion it said:

'It is our conclusion that the composition of matter embraced in applications for United States Letters Patent Serial Nos. 581172 and 639416, 607078 and 643759 were plaintiff's trade secrets, and defendants' betrayal of these trade secrets may not be countenanced by a court of equity. Assuming that the applications for patents in Great Britain and other foreign countries amounted to a disclosure of plaintiff's trade secrets, nevertheless it did not relieve the individual defendants here from their contractual and fiduciary obligation. The determination of what, if any, rights the public may have respecting the use of plaintiff's trade secrets by reason of the application for letters patent in Great Britain or elsewhere, we will leave for decision when that question is presented.'

'The knowledge of chlordane and the construction and equipment of the plant in which the same was manufactured—for which it had expended several hundred thousands of dollars—were, as we have said, plaintiff's trade secrets. Any knowledge which defendants acquired respecting those secrets was obtained while they were plaintiff's employees, and under a contractual obligation, as evidenced by their employment agreements, and in addition thereto this knowledge of plaintiff's trade secrets was acquired by them in confidence and while they were occupying a fiduciary relationship. They now seek to appropriate those trade secrets to their own use and profit

by a violation of their contractual agreements and a betrayal of the confidence reposed in them by plaintiff. This they may not do; such conduct is abhorrent to our conception of ordinary honesty. Shellmar Products Co. *v.* Allen-Qualley Co., supra; E. I. Du Pont De Nemours Powder Co. *v.* Masland, 244 U. S. 100, 37 S. Ct. 575, 61 L. Ed. 1016; Marcalus Mfg. Co. *v.* Sullivan, 142 N. J. Eq. 434, 60 A. 2d 330; Bohlman *v.* American Paper Goods Co., D. C., 53 F. Supp. 794; A. O. Smith Corporation *v.* Petroleum Iron Works Co., 6 Circ., 73 F. 2d 531; Conmar Products Corp. *v.* Universal Slide Fastener Co., Inc., 2 Cir., 172 F. 2d 150; Consolidated Boiler Corp. *v.* Bogue Electric Co., 141 N. J. Eq. 550, 58 A. 2d 759; Junker *v.* Plumer, 320 Mass. 76, 67 N. E. 2d 667, 165 A. L. R. 1449; Picard *v.* United Aircraft Corp., 2 Cir., 128 F. 2d 632, certiorari denied 317 U. S. 651, 63 S. Ct. 46, 87 L. Ed. 524; Noeltke *v.* C. M. Kemp Mfg. Co., 4 Cir., 80 F. 2d 312; Sandlin *v.* Johnson, 8 Cir., 141 F. 2d 660; Stone *v.* Goss, 65 N. J. Eq. 756, 55 A. 736, 63 L. R. A. 344; Hayden Chemical Corp. *v.* Burrell & Heidig, Inc., 2 N. J. Super. 467, 64 A. 2d 465; Larx Co. *v.* Nichol, 224 Minn. 1, 28 N. W. 2d 705; Jones *v.* Ulrich, 342 Ill. App. 16, 95 N. E. 2d 113; Paley *v.* Du Pont Rayon Co., 7 Cir., 71 F. 2d 256; 170 A. L. R. 471 et. seq.; 28 Am. Jur. p. 303, Sec. 110, et seq.; 35 Am. Jur. p. 525, Sec. 97; 56 C. J. S., Master and Servant, Sec. 72, page 483; 43 C. J. S., Injunctions, Sec. 148 et seq., page 750; Hopkins on Trademarks, Tradenames and Unfair Competition (4th ed.), p. 419, et seq., Sec. 149; 5 Williston on Contracts (Rev. ed.), p. 4623, Sec. 1646.'

"We are not here concerned with any claim of patent infringement nor are we concerned with the rights of the public generally. Jackson learned the plaintiff's trade secrets in confidence and, in violation of his fiduciary obli-

gations, he disclosed and used them for purposes other than his employer's benefit. See *Sun Dial Corp.* v. *Rideout, supra,* 16 N. J. at 259; *Vulcan Detinning* v. *American Can Co.,* 72 N. J. Eq. 387, 395 (E. & A. 1907). His conduct was grossly improper and gave rise to the plaintiff's cause of action, based on long settled equitable principles and supported by the marked changes in the attitude of the law towards the need for commercial morality. *Sun Dial Corp.* v. *Rideout, supra,* 16 N. J. at 261; *Franke* v. *Wiltscheck, supra,* 209 F. 2d at 499. *Cf. 3* Restatement, Torts, 540 (1938): 'the tendency of the law, both legislative and common, has been in the direction of enforcing increasingly higher standards of fairness or commercial morality in trade.' We know of no persuasive reason for depriving the plaintiff of the benefits of its accrued cause of action because some of its secrets were later disclosed by the issuance of protective patents during the pendency of its action. Surely the defendants are in no just position to seek this result and the plaintiff should not be subjected to the burden and jeopardy of additional or divided proceedings to obtain the complete relief to which it is here fairly entitled as against the defaultant fiduciary Jackson and his company the American Marking Corporation."

Justice Heher dissenting.

The Opinion of the Superior Court of New Jersey, Chancery Division (1954) is Reported in 35 N. J. Super.

SPEAKMAN, A.J.S.C.

"This is an action brought by Adolph Gottscho, Inc., a New York corporation authorized to do business in New Jersey, originally against four defendants: The American Marking Corporation, Alfred Reinke, Gus Reinke Machin-

ery & Tool Company, and John K. Jackson. The case first came on for trial before Judge Stein on May 22, 1952, at which time one day's testimony was taken; and the trial was then continued to a later date. At that time all the parties mentioned were in the action.

"Subsequently the case was set down for trial before Judge Stein for June 9, 10, and 11, 1952, but due to his assignment elsewhere the matter came on before me temporarily assigned to try the case. By agreement and stipulation of the parties the testimony taken before Judge Stein on May 22, 1952, was part of the record before me and it was agreed that I should read it as though the testimony had been taken before me. The trial continued before me on the 9th, 10th, 11th, and 12th of June 1953, and was adjourned to the fall, when it commenced in the early part of October and concluded in December.

"Before disposing of the meritorious questions involved in the case, a few preliminary observations will not be inappropriate.

"Between May 22, 1952, when the trial commenced before Judge Stein, and June 9, 1953, when it was resumed before me, the plantiff and the defendants Reinke entered into a stipulation of dismissal and an agreement, which was introduced in evidence at the opening of the trial before me on June 9.

"The remaining defendants, i. e., Jackson and American Marking Corporation, which for convenience will be considered as Jackson hereinafter, thereupon made a motion to dismiss as to them on the ground that the release of one joint tortfeasor released the other. The soundness of this principle is unquestioned and it is the law of New Jersey. Here, however, it was decided that it was not a release but was a covenant not to sue and that therefore the Jackson defendants were not released. The motion of these defendants at that time was accordingly denied.

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"During the summer recess application was made to the Appellate Division under Rule 4:2-2(b), now Revised Rule 2:2-3(b). Leave to Appeal, which application of the defendant was denied.

"At the resumption of the trial before me this fall, the defendant renewed the application to dismiss on the grounds previously stated, and I believe that at the conclusion of the plaintiff's case one of the grounds of a motion for dismissal was the same as that alleged in June and at the opening of the trial this fall. Again the application was denied.

"In addition, on the motion to dismiss at the end of the plaintiff's case the defendant contended that because of the issuance of letters patent with respect to certain of the alleged secrets, while this case was pending, the Court no longer had jurisdiction over the subject matter covered by the patent; and further argued that as to those alleged secrets which were not included in the letters patent issued, but which were disclosed in the application, that there was a public disclosure which entitled the defendant to a dismissal of the action. These motions were denied for the reasons then stated.

"It seems to me that whatever the law may be elsewhere—and I question that that is the law elsewhere—it did not appear to be the law in New Jersey or in the Third Circuit, nor did it appear to be the law in the Sixth or Seventh Circuits. As to New Jersey and the Third Circuit, refer to *Stone* v. *Gross and Graselli Chemical Co.*, 65 N. J. Eq. 756 (E. & A. 1903); *Thiberg* v. *Bach*, 107 F. Supp. 639, affirmed 203 F. 2d 956 (3d Circ. 1953).

"I reaffirm on the briefs and on the arguments of ten days ago the rulings heretofore made on applications for dismissal on the ground of the release of one tort-feasor releasing the other, the lack of jurisdiction of this Court because of the issuance of letters patent with respect to some of the alleged secrets, and the disclosure by the patents issued as well as by the application for the patents.

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"For a number of years the plaintiffs have been engaged in the design, manufacture, and sale of automatic marking and printing machines used to imprint code numbers, lettering, and other marks of identification on packages. It appears from the evidence that in the packaging industry for many years, it had been the practice to buy packages on which appeared the imprinting when purchased, or that the packages were bought flat and there would be imprinting applied before placing the object in the particular carton. The purpose and the function of the machines involved here is to provide a means whereby that imprinting or coding or whatever it might be, may be done after the carton had been packed and put through the assembly line—taking the case of the large machine, the Markocoder, as part of an assembly line—so that it would work in with our standards of manufacture in this country, the assembly line method of starting at one end and going right through to completion.

"The plaintiff commenced in about 1948 to develop the secrets involved here, and with respect to some it may have started earlier, and basically they involved three machines: the Rolacoder, the Rolaprinter and the Markocoder 3M.

"In 1948 the plaintiff hired the defendant John K. Jackson. This hiring was the result of some conversations had between the defendant Jackson and the plaintiff's officer Ira Gottscho. The conversations were started earlier in the year following the Packaging Show—which it is agreed was always held in the spring—and these conversations were renewed in the summer or fall. He was first hired as a salesman, and shortly thereafter as a design engineer; then I believe in June 1949 he was made assistant general manager and continued as such until February of 1950, when he was made chief engineer. In that position he continued, I believe, until he was discharged in September of 1950.

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"It was during this time that the plaintiff alleges substantially all the secrets here involved were perfected by experimentation and trial-and-error. The plaintiff claims that at the time of the hiring or before Ira Gottscho hired the defendant Jackson on behalf of the plaintiff corporation, that they had a discussion in which Jackson agreed to keep confidential all that information he received. This is disputed by the defendant Jackson; but for the purposes of this case it seems to me unnecessary to determine that, because I am satisfied from the nature of the employment in which the defendant Jackson was engaged that the Plaintiff corporation thought a confidential relationship existed within the meaning of that term as expressed in the opinion of Judge Goldmann in the case of *Sun Dial Corporation* v. *Rideout, et al.*, decided by the Appellate Division in January of this year and filed January 6, 1954.

"No useful purpose will be served to reiterate herein the list of authorities mentioned in the Sun Dial case; most of them have received our consideration during the course of this trial.

"The big question here is whether the information transmitted by the plaintiff to the defendant was of a secret nature; that is, did it refer to trade secrets within the meaning of that term.

"It seems to me to be beyond question that the defendant had no knowledge of, or experience with, imprinting or coding machines prior to his employment with the plaintiff. While he had for many years been employed in one engineering capacity or another by different substantial organizations, particularly in the packaging industry, the record is absolutely barren of any evidence that he had had any experience whatsoever with coding or imprinting machines. So the conclusion seems to me to be inescapable that any information and knowledge he obtained as to the design, construction and manufacture of imprinting and coding

machines like those in issue here, were acquired by him while he was employed by the plaintiff corporation.

"It was held in the Sun Dial case, following what seems to be accepted throughout the country, that 'a trade secret may consist of a plan, process, formula, device, or compilation of information used on one's business and which affords an opportunity to obtain an advantage over competitors who do not know or use it. There must be employed creative faculties in originating it, amounting to a meritorious discovery. The trade secret need not, however, be patentable.'

"Now, the alleged trade secrets are all described in the answers to the interrogatories propounded by the defendant, numbered 16-A, 16-B, 16-C and 27. For convenience, it has been agreed by counsel that the nomenclature there used may be used by me in disposing of the various contentions made here.

"Within the definition of trade secrets previously mentioned and as set forth in the Sun Dial case, it seems to me that substantially all the alleged secrets set forth in answers to interrogatories 16-A, 16-B, 16-C, 16-D, and 27, are trade secrets. No useful purpose will be served in taking up item by item the overwhelming amount of testimony presented during the trial with respect to each of these alleged trade secrets; but it is sufficient to point out that although the defendant contends that anybody could do that which the plaintiff did, and which, as will hereinafter be mentioned, the defendant has done since he has left the plaintiff's employ, the fact is that the record indicates that prior to the time that the plaintiff corporation devised a vertical printing head, for instance, to be used with its imprinting machinery, it was not used, although the aniline process had been known and used extensively for approximately a half century.

"It is contended by the defendant, for instance, that it was merely taking rollers which were positioned horizon-

tally rotating in an ink well, which he claims was the aniline process in horizontal position, and standing them up in a vertical position, and there you have the plaintiff's secret.

"Frankly, had this been the fact, someone long ago would have mastered that simple process. The fact that it was not done is evidence that it was not so easy as the defendant would have it appear, and the fact that he was able to do it easily—having acquired the knowledge while he was in the plaintiff's employ—to me is unimpressive.

"Simliarly, with respect to the method by which baselock type is secured, which now has the trade name of Metalok. Here, again, for years the trade apparently was content with rubber type and rubber baselock which was loose and slipped; and here, again, the defendant says that it is simple to do. But here, again, no one did it before the plaintiff conceived the idea and perfected it, and in this particular case, as I believe, a patent was issued with respect to that secret, so that in addition to being a secret there is presumptively novelty and invention, as there is, I believe, also with respect to the vertical printing head which is now in part protected by patents. Here, again, it is not only secret, but as to these items there appears to be novelty and invention, although that is not necessary in order to consider it a trade secret.

"The evidence clearly indicated from Mr. Jackson's testimony at the first day of the trial before Judge Stein, when he was called as a witness by the plaintiff, that he was in his business using in the manufacture of the Cadet, the Major and the Commander, information that he had acquired while in the employ of the company. Later during the course of the trial at the conclusion of the plaintiff's case, over the objection of the plaintiff, I permitted him to testify as to what he termed to be corrections of his prior testimony. The corrections, to me, were simply afterthoughts acquired by him after he had heard substantially all the plaintiff's evidence. To me they did not correct, but

they did help to enlighten me with respect to his attitude concerning the plaintiff's secret.

The defendant, in my opinion, has a capacity, and perhaps an unusual capacity, for retaining that which he has done and copying it, and perhaps making that which he has done a little prettier; in other words, dressing it up. I think his engineering ability in that regard cannot be denied, and I think in many respects the machines he manufactured are more dressed up, more appealing to the eye, than the plaintiff's although in my view they have in them the principles and information with respect to which he acquired knowledge while in the plaintiff's employ. I cannot find in the evidence that the plaintiff has sustained the burden that he actually took from the plaintiff physical designs or drawings or blueprints from which he designed the Cadet, the Major and the Commander.

"However, I am satisfied that the design and construction of all three and the appearance of all three to some extent, are sufficiently similar to those of the plaintiff's products, namely, the Rolacoder, the Rolaprinter, and the Markocoder 3M, that the inescapable inference must be drawn that in his mind there were so ingrained the principals he had acquired, that without resort to the actual blueprints or copies thereof he was capable of redesigning them and having them manufactured by Reinke, which company, incidentally, had manufactured the products of the plaintiff.

"With these preliminary observations I will now indicate my findings by numbering as it appears from my copy of Exhibit P-49 for identification, which I believe during the trial it was agreed correctly stated the answers to the interrogatories.

"Answer 16-A:

"(1) Whereby ink is supplied to a roller of two vertically mounted rollers; (2) Whereby ink is evenly distributed

to a roll of two vertically mounted rollers; and (3) By which the ink is recirculated.

"I find these to be the application of the principle which he learned while in the plaintiff's employ which in my opinion is that combination constitutes a trade secret.

"Similarly with respect to (4) By which the pressure between said rollers may be varied; and (5) By which the baselock type is secured; (6) By which the circumference of the die wheel is determined to be one-half of the pusher distance; (7) Whereby the die wheel is spring-loaded; (8) Whereby the die wheel may be raised or lowered without switching off the machine.

"All these secrets are contained in the American Commander model which the plaintiff examined and which are likewise principles contained in plaintiff's Markocoder 3M.

"I recognize that in dimension there is a difference and I recognize that in appearance there is some dissimilarity, although to me there was great similarity in many respects; but so far as the applicable principles are involved I can find no substantial dissimilarity, and on the contrary I find great similarity.

"Answer 16-B:

"(1) Whereby the ends of the metering and ink rolls are wiped.

"To me there is no particular secret here involved. As I recall this particular item, these are the 'doctor' wipers known and used before, and while they are used with respect to the Rolaprinter, in many instances they are not used or are taken off, and to me it was demonstrated they were in existence and known prior to 1948 when they were employed by the plaintiff.

"(2) Whereby the effective weight of the die wheel is controlled, and (3) By which the baselock type is secured.

"It seems to me they are substantially copies and substantially similar in the American Major to those contained

in the Rolaprinter, and in my opinion they constitute secrets which the defendant Jackson acquired knowledge with respect to during his employment with the plaintiff.

"Answer 16-C:

"(1) By which ink is fed into the ink roller.

"It seems to me that this constitutes a trade secret.

"(2) By which the rubber roller is rim-driven by die wheel.

"I am unable to find that this constitutes a trade secret.

"(3) By which the rubber roller is eccentrically mounted;

"(4) By which the ink roller is mounted and spring-loaded;

(5) By which the baselock type is secured; and (6) By which the effective pressure at the die wheel is controlled.

"In my opinion these are all trade secrets which the defendant acquired while in the plaintiff's employ and are substantially similar in the American Cadet, which is in appearance, design, and function substantially similar to plaintiff's Rolacoder.

"Answer 16-D:

(1) By which ink is fed to the ink roller; (2) By which the ink is further fed to the metal transfer roller.

"These seem to me to be trade secrets which the defendant acquired while in the plaintiff's employ and are substantially similar in the American Commander to the plaintiff's Markocoder 3M.

"(3) By which the ends of the roller are wiped.

"In my view this is not a trade secret.

"(4) By which the entire printing head assembly is mounted under the table beneath an opening in the table;

"(5) By which a chain with lugs on it traveling in synchrony with the above-mentioned printing head carries the objects over the opening for printing from below, and (6) By which the baselock type is secured.

"In my view in combination these constitute a trade secret, information with respect to which the defendant acquired while in the employ of the plaintiff corporation.

"(7) By which products are separated by means of a star wheel; (8) By which there is a belt infeed carrying the products to the separator; (9) By which there is a belt outfeed carrying the products away from the chain lug conveyor.

"In my view these are not trade secrets; furthermore, the defendant's prior experience with packaging machinery leads me to believe that he had information with respect to these items and acquired it prior thereto, so that any information he acquired from the plaintiff with respect to these items were not confidential or trade secrets.

"Answer 27:

"(1) Use of vertical infeed belts; (2) Use of mechanism to prevent re-inking of die wheel when package flow is interrupted; (3) Use of interchangeable rings for baselock type and sleeves for adhesive back dies; (5) Adjustment of pressure between rollers without stopping machine; (6) Use of mechanism for re-positioning die wheel; (7) The size and position of the fountain in relation to the sizes and positions of the metering roller die wheel and ink roller.

"In my view these are all trade secrets within the rule I have just discussed, knowledge of which was acquired by the defendant while in the plaintiff's employ, and employed by the defendant in his machines.

"(8) The use of hold-down to control package imprinting position.

"I am unable to find that this is a trade secret.

"Now, with respect to those matters which in my view are trade secrets within the meaning of the rule as expressed in the opinion in the *Sun Dial* case by the Appellate Division, and in view of the fact that I have already found that the defendant Jackson was in a confidential relationship, the question remains as to whether there has been a disclosure of these, either in whole or in part, and whether the plaintiff in the design, manufacture, and sale of these took sufficient precautions to keep them within the rule of trade secrets.

"It seems to me there can be no question but that sufficient precautions were taken in view of the nature and type of the secrets involved. Without detailing the evidence, when conferences were had about something new the evidence indicates that they were held not in public, but more or less in private—some, in fact, very private.

"But be that as it may, in view of the nature of the various steps to be taken, no one person in the plant except Mr. Hirschey, Mr. Jackson, and Mr. Gottscho knew all the secrets, and while Mr. Alessi may have known some of them I doubt that he knew them all. I am confident that some of those who professed to have had knowledge, did not.

"Now we come to the question as to whether there has been such disclosure which would prevent the plaintiff from enforcing, or prevent the defendant from using these, or any of them. Let me say that I do not think that all the secrets are completely disclosed, but I think some of them are substantially disclosed.

"Take, for instance, (1) and (3) in the answer to interrogatory 16-A. Standing alone they are in my view completely disclosed, but in combination with (2)—and that is where their effective use is concerned, they are only partially disclosed.

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"I am, however, satisfied that in time, with the expenditure of money, by trial and error, by design and re-design, any person who cares to take the time and spend the money could copy all the plaintiff's secrets and could thus acquire a knowledge of all the secrets, even though he might not know all the reasons applicable to each and every one thereof.

"But I do not think that is necessary. It is the plaintiff's contention that one must not only be able to copy, but must have a knowledge of all the secrets and all the information. I disagree with that. If he is able to copy them all substantially and to work them effectively, I think anyone can do it, and that is a disclosure, even though he may not know all the implications of each of the secrets. As a matter of fact, the plaintiff himself admitted he did not recognize the full import of one of the secrets until after he had tried it.

"On the other hand, I disagree with the defendant that since there is this much of a disclosure, that that entitles him to manufacture them.

"I am satisfied he could not have manufactured them as readily except by the prior knowledge he obtained. He could do it without the expenditure of research, effort, time, and money, which the general public itself would have had to do, and I think it is that unequal conduct which the court had in mind when it said that those people in a confidential relationship who have acquired knowledge of secrets when they were secrets, that they may be enjoined from utilizing them even though later there is in some form or another a public disclosure so that the public could copy them by the exercise of perseverance and time, and the expenditure of money.

"I think the law of New Jersey as set forth in the *Stone* v. *Gross and Graselli Chemical Company* case and mentioned in the *Sun Dial* case and the Third Circuit cases of *Thiberg* v. *Bach* and *Bohlman* v. *American Paper Goods Company*, 53 F. Supp. 794 apply to the case here. That

rule, of course, is binding on me, and accordingly there will be judgment for the plaintiff in accordance with the views herein stated, and there will be an injunction and an accounting by the defendant."

Final Judgment.

SUPERIOR COURT OF NEW JERSEY,

CHANCERY DIVISION, ESSEX COUNTY.

DOCKET NO. C-1907-50.

ADOLPH GOTTSCHO, INC.,
a corporation,
Plaintiff,

v.

AMERICAN MARKING CORPORATION,
a corporation, *et als.*,
Defendants.

Civil Action.

This action having been tried on May 22, 1952, and on June 9, 10, and 11, 1953, and on October 5, 6, 7, 8, 9, 14, 15, 16, 19, 20, 22, 23, 26, 27, 28, 29, 30, and on November 2, 4, 5, 6, 9, 10, 12, 16, 17, 18, 19, 23, 24, 25, 30, and on December 1, 2, 3, 4, 7, 8, 9, 10, and 11, 1953, and it appearing that on June 9, 1953, the action was dismissed against two of the original defendants; namely, Alfred Reinke, and the Gus Reinke Machinery & Tool Company, by stipulation signed on behalf of said defendants and the plaintiff dated June 4, 1953; and it further appearing that, upon the filing of said stipulation on June 9, 1953, the remaining defendants, namely, American Marking Corporation and John K. Jack-

son, applied to this Court for a dismissal of the action as to them, which was denied by order entered herein on June 17, 1953; and it further appearing that defendants' application for leave to appeal that order was denied by the Appellate Division on July 6, 1953, by order entered July 13, 1953; and it appearing to the satisfaction of the Court that the plaintiff, by the expenditure of time, effort and money, developed trade secrets in the manufacture of marking and printing machines which were disclosed to the defendant John K. Jackson in secret and confidence while he was employed by the plaintiff and that prior to such employment by said plaintiff the said defendant John K. Jackson had no knowledge thereof; and it further appearing that the defendant John K. Jackson is the principal stockholder of the defendant American Marking Corporation whose purpose is and which is now engaged in the manufacture and sale of marking and printing machinery in competition with the plaintiff, and that said defendants are using plaintiff's trade secrets disclosed to the said John K. Jackson in confidence while employed by the plaintiff; and the Court having read, heard, and considered the arguments of Jerome C. Eisenberg appearing for Eisenberg & Spicer, attorneys for the plaintiff, and Robert R. Daly, appearing for Daly, Hillis & McCormick, attorneys for the defendants American Marking Corporation and John K. Jackson, and the Court being of the opinion that the plaintiff is entitled to an injunction against the said defendants and to an accounting by said defendants for damages; and it further appearing that, after the opinion of this Court had been rendered, Ralph G. Mesce was, on February 9, 1954, substituted as attorney for the defendant American Marking Corporation, it is, on this 1st day of March, 1954, as of January 25, 1954,

ORDERED and ADJUDGED that:

1. The defendants American Marking Corporation, a corporation of New Jersey, and John K. Jackson, and their agents, servants, employees, successors and assigns, and

those participating in the operation of American Marking Corporation be and they are hereby, jointly and severally, perpetually restrained and enjoined from using, directly or indirectly, for their own benefit or for the benefit of others, or from disclosing to anyone, plaintiff's trade secrets or mechanisms or devices substantially or basically similar thereto, or any machines, mechanisms, or devices designed or to be used for the printing of markings upon boxes, cans, bottles, cartons, packing cases, or other containers or articles, or upon continuous rolls, sheets, webs, or strips, whether by means of vertically or horizontally mounted rollers which contain, embody, or employ the trade secrets of the plaintiff or the physical components or the arrangement thereof created, developed, or employed by the plaintiff; and

2. That the defendants American Marking Corporation and John K. Jackson, their agents, servants, employees, successors and assigns, and those participating in the operation of American Marking Corporation, be and they are hereby, jointly and severally, perpetually restrained and enjoined from making, selling, or shipping any machines, mechanisms, or devices designed or to be used for the printing of markings upon boxes, cans, bottles, cartons, packing cases, or other containers or articles, or upon continuous rolls, sheets, webs, or strips, whether by means of vertically or horizontally mounted rollers which contain, embody, or employ the trade secrets of the plaintiff or the physical components or the arrangement thereof created, developed, or employed by the plaintiff, and heretofore identified in this action as

(a) the component parts and arrangement thereof whereby ink is supplied to a roller of two vertically mounted rollers, and whereby the ink is evenly distributed to a roller of two vertically mounted rollers, and by which the ink is recirculated; and, by way of further identification

(and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(b) the component parts and arrangement thereof by which the pressure between the said rollers may be varied; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(c) the component parts and arrangement thereof by which the circumference of the die wheel is one-half of the pusher distance; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(d) the component parts and arrangement thereof whereby the die wheel is spring-loaded; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(e) the component parts and arrangement thereof whereby the die wheel may be raised or lowered without switching off the machine; and, by way of further identification (and not in limitation of this judgment) as used in plaintiff's machine known as the Markocoder 3M; and

(f) the component parts and arrangement thereof by which the effective weight of the die wheel is controlled; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolaprinter; and

(g) the component parts and arrangement thereof by which ink is fed to an ink roller; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolacoder; and

(h) the component parts and arrangement thereof by which the rubber roller is eccentrically mounted; and, by way of further identification (and not in limitation of this

judgment), as used in plaintiff's machine known as the Rolacoder; and

(i) the component parts and arrangement thereof by which the ink roller is mounted and spring-loaded; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolacoder; and

(j) the component parts and arrangement thereof by which the effective pressure at the die wheel is controlled; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolacoder; and

(k) the component parts and arrangement thereof by which ink is fed to a metal transfer roller; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder Model A; and

(l) the component parts and arrangement thereof by which the entire printing head assembly is mounted under a table beneath an opening in the table and by which a chain with lugs on it travelling in synchrony with said printing head carries the objects over the opening for printing from below; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder Model A; and

(m) the component parts and arrangement thereof in the construction and use of vertical infeed belts; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(n) the component parts and arrangement thereof of a mechanism to prevent re-inking of the die wheel when package flow is interrupted; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Markocoder 3M; and

(o) the component parts and arrangement thereof of overhung mounting of ink and die rollers and ink fountains; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolaprinter; and

(p) the component parts and arrangement thereof of a means for locking type of clamping rings, discs, or plates (now identified by the plaintiff's trademark Metalok); and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machines known as the Rolacoder, Rolaprinter, Markocoder 3M, and Markocoder Model A; and

(q) the component parts and arrangement thereof, for the use of interchangeable rings for holding type and sleeves for holding adhesive backed dies; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machines known as the Rolacoder, Rolaprinter, Markocoder 3M, and Markocoder Model A; and

(r) the component parts and arrangement thereof for adjustment of pressure between rollers without stopping the machine; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machines known as the Rolaprinter, Markocoder 3M, and Markocoder Model A; and

(s) the component parts and arrangement thereof for re-positioning the die wheel; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolacoder; and

(t) the component parts and arrangement of the ink fountain and its size and position in relation to the sizes and positions of the metering roll, die wheel, and ink roll; and, by way of further identification (and not in limitation of this judgment), as used in plaintiff's machine known as the Rolaprinter; and

(u) any combination of any of the foregoing component parts and arrangements; and

(v) any component parts or arrangement thereof similar to the component parts and arrangement thereof heretofore stated, irrespective of the kinds of materials used or dimensional differences thereof; and

3. That the defendants American Marking Corporation and John K. Jackson, their agents, servants, employees, successors and assigns, and those participating in the operation of American Marking Corporation, be and they are hereby ordered and directed to set aside and impound all machines, mechanisms, devices, or parts thereof in their custody, possession, or control, which embody, use, or employ the physical components and the arrangement of the plaintiff's trade secrets herein enjoined, and to set aside and impound all drawings, plans, patterns, photographs, advertising material, or other documents illustrating, depicting, describing, or explaining any of the plaintiff's trade secrets enjoined by this judgment; and not to use the same in any way, directly or indirectly, except as the same may be required or necessary for use by either defendant or their attorneys on any appeal taken from this judgment; and

4. That the defendants American Marking Corporation and John K. Jackson be and they are hereby ordered and directed to account to the plaintiff for all avails or profits received by them in the manufacture and sale of machines bearing the trade names of the defendant American Marking Corporation, such as American Cadet, American Major, American Commander, and all parts thereof, and all other machines manufactured and sold by the defendants which embody any of the plaintiff's secrets enjoined by this judgment, by whatever name such machines may be sold, advertised, or identified by the defendants, and to pay over to the plaintiff all avails or profits realized by them in

the manufacture and sale of such machines and parts thereof and, in that connection, to produce and submit before this Court on Monday, March 22, 1954, all of their records, books, and other documents relating to the manufacture and sale of all such machines and parts, to the end that this Court may determine what avails and profits were realized by the defendants from the use of plaintiff's trade secrets in the manufacture and sale of said defendants' machines; and

5. That the defendants American Marking Corporation and John K. Jackson, their servants, agents, employees, successors and assigns, and their attorneys, and those participating in the operation of American Marking Corporation, be and they are hereby, jointly and severally, perpetually restrained and enjoined from disclosing any information derived from the testimony of any witness in this action, or from the transcript thereof, or from the pleadings filed herein, from answers to interrogatories, or from pre-trial depositions, explaining or touching upon the plaintiff's trade secrets enjoined by this judgment; and

6. That the final ribbon copy of the transcript of the testimony taken in this action be sealed and impounded by the Clerk of this Court and it shall not be inspected except by the order of this Court; and that all copies of the transcripts of the testimony now or hereafter to come in to the possession of the defendants or their attorneys be set aside and impounded by them, subject only for use by either defendant or their attorneys on any appeal taken from this judgment; and

7. That the defendants American Marking Corporation and John K. Jackson pay to the plaintiff its costs of this action, to be taxed by the Clerk of this Court, and that plantiff have execution therefor according to the practice of this Court; and

8. That any of the parties to this action may, on not less than 5 days notice to other parties hereto, make application for such orders as to this Court may be necessary or appropriate to carry out the intent and purpose of this judgment, and jurisdiction is expressly retained for such purposes.

(signed) G. Dixon Speakman
J. S. C.

Mandate on Affirmance.

SUPREME COURT OF NEW JERSEY.

Appeal Docket No. 1786.

Adolph Gottscho, Inc.,
a corporation,
Plaintiff-Respondent,

vs.

American Marking Corporation, a corporation, and John K. Jackson,
Defendants-Appellants,

and

Alfred Reinke, *et al.*,
Defendants.

Civil Action
On Appeal

This cause having been duly argued before this Court by Mr. Robert R. Daly and Mr. Ralph C. Mesce, counsel for the appellants and Mr. Jerome C. Eisenberg, Counsel for the respondent, and the Court having considered the same,

It is hereupon ordered and adjudged that the judgment of the said Superior Court—Chancery Division is affirmed

with costs, and it is further ordered that this mandate shall issue ten days hereafter, unless an application for rehearing shall have been granted or is pending, or unless otherwise ordered by this Court, and that the record be remitted to the Superior Court—Chancery Division to be there proceeded with in accordance with the rules and practice relating to that court, consistent with the opinion of this Court.

WITNESS the Honorable Arthur T. Vanderbilt, Chief Justice, at Trenton on the 23rd day of May, 1955.

JOHN H. GILDEA, Clerk,
Clerk of the Supreme Court.

Filed May 23, 1955.

JOHN H. GILDEA,
Clerk.

A True Copy

JOHN H. GILDEA, Clerk

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FILED
JUL 23 1955
HAROLD B. WILLEY, Cle

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 191.

AMERICAN MARKING CORPORATION, a corporation, and JOHN K. JACKSON,

Petitioners,

vs.

ADOLPH GOTTSCHO, INC., a corporation,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. 191

AMERICAN MARKING CORPORATION, a Corporation, and JOHN K. JACKSON, Petitioners,

vs.

ADOLPH GOTTSCHO, INC., a corporation, Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

I.

Preliminary Statement.

The petition for a writ of certiorari filed on behalf of the petitioners herein contains two omissions and at least one error. The omissions are the complete citations of the opinions below which were probably not available to petitioners' counsel when the petition was filed. The opinion of the Supreme Court of New Jersey was published in 18 N. J. 467 (1955). The opinion of the Superior Court of New Jersey was published in 35 N. J. Super. 333 (Ch. Div. 1954).

The error is contained in the opinion of the Superior Court of New Jersey, as printed on page 35 of the petition.

In the 5th line of the 4th paragraph on that page there appears the following quotation from Judge Speakman's opinion:

> "• • • and I think it is that *unequal* conduct which the court had in mind • • •"

The word *unequal* is erroneous. The trial judge used the word "*inequitable*" which should be substituted.

II.

ARGUMENT.

The Petition Should Be Dismissed for Want of a Federal Question.

It is respectfully submitted that there is no federal question here involved which would justify this Court in the exercise of its jurisdiction to grant a writ of certiorari to the Supreme Court of New Jersey.

What petitioners claim as the federal question involved is phrased by them as follows (Brief, pp. 2-3):

> "—does the issuance of a patent constitute a public disclosure so as to terminate a pre-existing cause of action predicated on the use of secrets disclosed by said patent?"

Petitioners' brief concludes (*ibid.*, p. 14) that certiorari should be granted

> "to insure the uniform administration of justice in the field of patent litigation."

This case involves unfair competition stemming from the petitioners' inequitable and unlawful appropriation of respondent's trade secrets—solely a matter of state law. There is no question of "patent litigation". Patents are only remotely and incidentally involved, as will be demonstrated below.

Petitioners invoke the jurisdiction of this Court here (Brief, p. 2) pursuant to 28 U. S. C. A. 1257 (3), upon the ground that some right held by them under the 14th Amendment has been "infringed" and upon the ground that some "constitutional power" of the United States "relating to patents" has been abridged. They do not show what right has been denied them nor what "constitutional power" of the United States relating to patents has been abridged. Their "Statement of the Question Involved" (Brief, pp. 2, 3) labels as a "federal" question whether the issuance of a patent constitutes a public disclosure of trade secrets so as to defeat an action to restrain unlawful appropriation of the trade secrets, which was commenced before any patents were issued. Other than the fact that petitioners have labelled this a federal question there seems to be no justiciable issue under the laws of the United States involved. No interpretation or construction of the United States patent laws was required or made to decide the case below.

The controversy below revolved, in part, around the second part of the question posed; namely, the effect of the issuance of a patent upon "a pre-existing cause of action" for unfair competition. There is no claim here of infringement of a patent. No question has been raised here, or was raised below, as to the validity of any patent,

nor is the construction or interpretation of the patent laws or the Constitution in controversy. The New Jersey courts could not take or exercise jurisdiction of any question arising under any act of Congress relating to patents; 28 U. S. C. A. 1338 (a); nor did they presume to do so.

It is essential to the jurisdiction of this Court, when its review of a state court judgment is sought, that it must appear affirmatively from the record that a federal question was presented for decision to the highest court of the State. *Lynch* v. *New York*, 293 U. S. 52, 54 (1934). While cases arising under the patent laws are exclusively within the jurisdiction of the federal district courts, this does not mean that every case involving or mentioning a patent necessarily arises under "any act of Congress relating to patents", or is a matter of federal law. 40 Am. Jur. PATENTS, § 170, p. 654, Cf. *Luckett* v. *Delpark*, 270 U. S. 496, at 502 (1926).

The privilege to compete with others has some limitations. *Prosser on Torts*, § 105, p. 1023 (1941). Patent laws provide protection to the originator or inventor, who may by appropriate action in the federal district courts prohibit the manufacture, sale, or use of a device which infringes his patent. The protection is limited to a fixed number of years. The law of torts prohibits copying in a manner which creates in the market avoidable confusion of commercial source. There is a further limitation—when the thing copied is a trade secret. 4 *Restatement*, TORTS, § 757, *Comment a.* One who discovers another's trade secret properly is free to disclose it or to use it in his own business. One who acquires a trade secret by breach of contract, or abuse of confidence, or by other improper means

may not use it without liability to its owner. 4 *Restatement*, TORTS, § 757. While the subject matter of a trade secret may be a device or process which is patentable, it need not be. Novelty and invention are not requisite for a trade secret as they are for patentability. 4 *Restatement*, TORTS, § 757, *Comment b.*, p. 6.

The action below was instituted in the state court on May 21, 1951, by the respondent (plaintiff below) to enjoin the petitioners (defendants below) from the manufacture, use, and sale of any device embodying trade secrets owned by the respondent (R. 1a, 2a, 3a). At or shortly after the case went to trial, some 7 patents were issued to the respondent (R. 38a). There was no claim before the trial court that the petitioners had learned the trade secrets from the patents. Nor could such a claim be honestly made, for the evidence was that all of respondent's patents issued *after* the discharge of the employee (petitioner Jackson) who appropriated the trade secrets in question. The trial court decided that the respondent commenced development of the secrets in 1948, the year in which it hired Jackson (R. 39a); that Jackson had no knowledge of the machines manufactured by the respondent (which embodied the secrets) before his employment by it (R. 40a); that any information and knowledge he obtained were acquired by him while in its employ (R. 41a). These findings were affirmed upon appeal, by the Supreme Court of New Jersey thus (18 N. J. 467, at p. 468):

> "After a lengthy trial Judge Speakman made complete factual and legal findings in the plaintiff's favor; they are embodied in an opinion reported at 35 N. J. Super. 333 (Ch. Div. 1954). We are satis-

fied that his factual findings are supported by the evidence * * *".

One of the defenses urged below by the petitioners was that, since the respondent had been granted certain patents which they urged contained or embodied some of the trade secrets in question, the issuance of the patents amounted to such a disclosure as to bar the respondent from the relief it was awarded below. This is the basis of the single argument advanced by the petitioners in support of their petition for certiorari. They have phrased it in a manner calculated to make it superficially appear as a federal question. The inherent fallacy of their argument becomes apparent upon analysis.

The patent laws grant a monopoly to an inventor, but the patent is granted only upon full disclosure of the subject matter of the patent. 35 U. S. C. A., §§ 112, 154. The significant difference between trade secrets and non-secret devices is that one who uses or copies the latter may do so with impunity, whereas one who gains knowledge of the former by the use of improper means, is subjected to liability if he exploits that knowledge. It is the employment of improper means in procuring the trade secret that forms the basis of liability in unfair competition cases. 4 *Restatement,* TORTS, § 757, *Comment a,* pp. 3, 4. The New Jersey courts below held that it was "inequitable conduct" by petitioner Jackson to use, to the respondent's detriment, the information obtained by him while in a position of trust and confidence; or, as the trial court put it, while he was in "a confidential relationship" (R. 40a). The essence of the action is breach of faith; the inequitable conduct of the defendants is the basis for relief.

As was said in *Vulcan Detinning Co.* v. *American Can Co.*, 72 N. J. Eq. 387 (E. & A. 1907), at page 395:

> "* * * too much emphasis has perhaps been placed upon the element of absolute secrecy in the process, and not enough stress has been laid upon the inequitable character of the defendant's conduct in making a use of such process that was inimical to the complainant's interests. * * * In the application of these general principles the secrecy with which a court of equity deals is not necessarily that absolute secrecy that inheres in discovery, but that qualified secrecy that arises from mutual understanding and that is required alike by good faith and by good morals."

The Supreme Court of New Jersey, in affirming the judgment of the trial court, said (18 N. J. 467, at pp. 474, 475):

> "We are not here concerned with any claim of patent infringement nor are we concerned with the rights of the public generally. Jackson learned the plaintiff's trade secrets in confidence and, in violation of his fiduciary obligations, he disclosed and used them for purposes other than his employer's benefit. * * * His conduct was grossly improper and gave rise to the plaintiff's cause of action, based on long settled equitable principles and supported by the marked changes in the attitude of the law towards the need for commercial morality."

The judgment affirmed by the Supreme Court of New Jersey contains this finding of fact (R. 49a):

> "* * * and it further appearing that the defendant John K. Jackson is the principal stockholder of the defendant American Marking Corporation whose purpose is and which is now engaged in the manufacture and sale of marking and printing machinery

in competition with the plaintiff, and that said defendants are using plaintiff's trade secrets disclosed to the said John K. Jackson in confidence while employed by the plaintiff * * *".

The courts of New Jersey have consistently enjoined former employees and others in a confidential relationship from breaching the confidence reposed in them by competing with the plaintiff by use of the information acquired during such confidential relationship. *Stone* v. *Goss and Graselli Chemical Co.*, 65 N. J. Eq. 756 (E. & A. 1903); *Vulcan Detinning Co.* v. *American Can Co., supra*; *Golden Cruller Co.* v. *Manasher*, 95 N. J. Eq. 537 (Ch. 1923); *Club Razor & Blade Mfg. Co.* v. *Bindzsus*, 131 N. J. Eq. 283; affirmed, 133 N. J. Eq. 38 (1943); *Heyden Chemical Co.* v. *Burrell & Neidig*, 2 N. J. Super. 467 (Ch. Div. 1949); *Sun Dial Corp.* v. *Rideout*, 25 N. J. Super. 591 (Ch. Div. 1953); reversed, 29 N. J. Super. 361 (App. Div. 1954); reversal affirmed, 16 N. J. 252 (1954). And *cf. Flexmir, Inc.* v. *Herman*, 138 N. J. Eq. 594 (Ch. 1946), and *Marcalus Mfg. Co.* v. *Sullivan*, 142 N. J. Eq. 434 (Ch. 1948). This is entirely a matter of state law; no federal law or federal question is involved. The reason for decisions of federal courts on this subject is that, when a claim of unfair competition is joined with "a substantial and related" claim under the patent laws, the federal district courts may exercise original jurisdiction thereof. 28 U. S. C. A. § 1338 (b). *Winthrop Chemical Co.* v. *American Pharmaceutical Co.*, 94 F. 2d 587 (2nd Cir. 1938); *Stark Bros. Nurseries & Orchards Co.* v. *Stark*, 255 U. S. 50 (1921); *Darsyn Laboratories* v. *Lenox Laboratories*, 120 F. Supp. 42 (D. Ct. N. J. 1954); affirmed on opinion below, 217 F. 2d 648 (3rd. Cir. 1954); cert. denied 348 U. S. , (May 9, 1955); *Algren Watch Findings Co.* v

Kalinsky, 197 F. 2d 69 (2nd Cir. 1952); *Hurn* v. *Oursler,* 289 U. S. 238 (1933). Because of this grant of jurisdiction, federal courts occasionally decide non-federal questions of unfair competition. The existence of such federal decisions (although applying state law) has undoubtedly prompted the petitioners to say, incorrectly, that (Brief, p. 2):

> "An examination of the *federal law* will reveal that the Courts of Appeal in the various circuits are in conflict * * *" [Emphasis added].

There is no such "federal law". As long ago as 1850, this Court, in *Wilson* v. *Sandford,* 51 U. S. 99, refused to take jurisdiction, in an action brought to set aside an assignment of a patent, on the ground that the dispute did not arise under any act of Congress nor did the decision depend upon the construction of any law in relation to patents. In that case, Chief Justice Taney said (51 U. S. 101, 102):

> "It arises out of the contract stated in the bill; and there is no act of Congress providing for or regulating contracts of this kind. The rights of the parties depend altogether upon common law and equity principles."

To the same effect are *Brown* v. *Shannon,* 61 U. S. 55 (1858); *Hartell* v. *Tilghman,* 99 U. S. 547 (1879); *Albright* v. *Teas,* 106 U. S. 613 (1883); *Dale Tile Mfg. Co.* v. *Hyatt,* 125 U. S. 46 (1888); *Felix* v. *Scharnweber,* 125 U. S. 54 (1888); *Marsh* v. *Nichols, Shepard & Co.,* 140 U. S. 344 (1891), and *Luckett* v. *Delpark,* 270 U. S. 496 (1926), all of which reaffirm the rule that an action by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use

of the patent is not a suit under the patent laws of the United States, and cannot be maintained in a federal court as such.

In *Franke* v. *Wiltscheck*, 209 F. 2d 493 (1953), a recent case decided by the Court of Appeals for the Second Circuit, that court granted injunctive relief against sales agents who had learned plaintiffs' trade secrets while negotiating a sales contract. In doing so, that court considered the question whether the law to be applied was that of Massachusetts, where the product was manufactured, or of New York, where it was sold, or of New Jersey, where the confidential relationship arose. It held that the law of those three states was "happily" the same in such a case, citing *inter alia, Vulcan Detinning Co.* v. *American Can Co., supra,* and 4 *Restatement,* TORTS, § 757. In response to the contention that the secrets had been revealed by (an expired) patent, the court said (209 F. 2d 495, left-hand column):

> "Defendants argue that the heart of plaintiffs process was revealed by an expired patent, and that the improvements thereon were unpatentable applications of mechanical skill. This totally misconceives the nature of plaintiffs' right. Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs' detriment. This duty they have breached."

This is a restatement of the law of Massachusetts, New York, and New Jersey, on the non-federal question involved. In *Darsyn Laboratories* v. *Lenox Laboratories, supra*, the district court dismissed the second count charging unfair competition because the alleged unlawful appropriation was not related to the claim for infringement, a jurisdictional requirement under 28 U. S. C. A. 1338 (b). In *Ferroline Corp.* v. *General Aniline & Film Corp.*, 207 F. 2d 912 (7th Cir. 1953), cited by petitioners (Brief, p. 14), the Court of Appeals applied what it held to be the law of New Jersey; namely, that a court of equity will aid the possessor of a trade secret by preventing its use by those who obtain the secret information by breach of contract or of a confidential relationship and by third parties who knowingly participate in such breach. But that court held that, on the facts before it, the defendant's disclosure was not a breach of confidence.

The "conflict" asserted by petitioners among the federal courts of appeals on the effect of the issuance of a patent on a pre-existing cause of action for unfair competition is not due to any divergent interpretation or application of *federal law*. Each federal court is agreed that state law is to be applied. The effect of applying the law of 48 states may cause the results to vary, as the law of the several states may vary, but it is respectfully submitted that the rule is clear: state law is to be applied and hence, there is no federal question involved. As Justice Brandeis stated, in *Brinkerhoff-Faris Trust & Savings Co.* v. *Hill*, 281 U. S. 673, 680 (1929):

> "It is true that the courts of a state have the supreme power to interpret and declare the written and unwritten laws of the state; that this court's power to review decisions of state courts is limited

> to their decisions on federal questions; and that the mere fact that a state court has rendered an erroneous decision on a question of state law, * * * does not give rise to a claim under the 14th Amendment or otherwise confer appellate jurisdiction on this court."

"There is no federal general common law" said Justice Brandeis for this Court in *Erie Railroad Co.* v. *Tompkins*, 304 U. S. 64, 78 (1938). He went on to say, further:

> "Congress has no power to declare substantive rules of common law applicable in a State whether they be local in their nature or 'general', be they commercial law or a part of the law of torts. And no clause in the Constitution purports to confer such a power upon the federal courts."

The incidental exercise of jurisdiction by federal courts over unfair competition cases "when joined with a substantial and related claim" under the patent laws, pursuant to 28 U. S. C. A. § 1338 (b), cannot convert the federal courts' decisions thereof into a federal question.

III.

Conclusion.

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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Dated: July 22, 1955.

SEP 14 195
HAROLD B. WILLEY,

IN THE

Supreme Court of the United States

October Term, 1955

No. 191

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Petitioners,

vs.

ADOLPH GOTTSCHO, INC., a corporation,

Respondent.

PETITIONERS' REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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I.

Preliminary Statement

The Argument in the Respondent's Brief in Opposition to the Petition for a Writ of Certiorari confines itself to the Respondent's Contention that the Petition should be dismissed for want of a Federal question. Accordingly this Reply Brief will similarly be confined to the same point, it being Petitioners' contention that the question as to whether the issuance of a patent constitutes a public disclosure so as to terminate a pre-existing cause of action predicated on the use of secrets disclosed by said patents, is a federal question.

II.

ARGUMENT

A federal question is involved and a writ of certiorari should be issued.

Respondent contending that there is no question of patent litigation involved states that "patents are only remotely and incidentally involved" (Brief, p. 3). The action instituted by the Respondent in the Superior Court of New Jersey sought injunctive and other relief against these Petitioners. The complaint alleged that Petitioner Jackson had learned the Respondent's trade secrets while in its employ and that these Petitioners were improperly using them. One of the defenses set up by these Petitioners to the cause of action of the Respondent was that the issuance of a patent constituted a public disclosure which defeated this Respondent's cause of action. A defense which if upheld would eliminate a cause of action can hardly be considered a remote and incidental matter. Quite to the contrary it is a basic thing which inherently goes directly to the heart of the cause of action brought by this Respondent in the Superior Court of New Jersey. If this defense is upheld then this Respondent's cause of action must fall. Therefore, the validity of the defense is a basic matter in controversy and not an incidental one.

The Respondent has stated further that this case involves unfair competition stemming from Petitioners' appropriation of Respondent's trade secrets and that this is solely a matter of state law. The defense as referred to above is based upon a construction of patent law. Specifically we are concerned with the effect of the issuance of a patent. Patents are issued under federal law and the effect of the issuance thereof is a matter of construction of a federal statute despite the contention of Respondent to the contrary.

It is well established law, and the Respondent agrees therewith, that cases arising under the patent laws are exclusively within the jurisdiction of the federal courts (Brief, p. 4).

We refer the court to 40 *Am. Jur., Patents,* section 169, p. 652, which reads as follows:

Section 169 Jurisdiction and Venue.

"The Federal Judicial Code provides that 'the jurisdiction vested in the courts of the United States in the cases and proceedings hereinafter mentioned shall be exclusive of the courts of the several states, * * * of all cases arising under the patent right, or copyright laws of the United States.' Under that act and prior statutes in similar terms, it is well settled that a state court has no jurisdiction of a case arising under the patent laws. Only a federal court may pass directly upon the question of infringement, the construction of the patent laws, or the validity of a patent."

The Respondent has cited *Wilson* v. *Sandford,* 51 U. S. 99 wherein this Court refused to take jurisdiction, in an action brought to set aside an assignment of a patent, on the ground that the dispute did not arise under any action of Congress nor did the decision depend upon the construction of any law in relation to patents. The Respondent cited other cases all of which sought relief in respect of a contract permitting use of a patent, wherein it was held that such suits are not suits under the patent laws of the United States and cannot be maintained in a federal court (Brief, p. 9).

It is submitted that all of these cases are inapplicable. It is obvious that those cases depend upon contractual rights and they are basically contract cases. The mere fact that patents constitute the subject matter of the contracts does not make these cases patent cases and accordingly they were not held to be within the jurisdiction of the federal

courts. The instant matter is clearly differentiated from those cases for we are not concerned with any contractual rights. The Petitioners' defense rests solely upon construction of patent law which is very definitely a federal question.

At page 10 of Respondent's brief there is cited the case of *Franke* v. *Wiltscheck*, 209 F. 2d 493 (1953) and the Respondent presents certain arguments in connection therewith. It should be noted that the Respondent is arguing the merits as to the effect of an expired patent and not the basic issue involved which is whether there is a federal question involved in this matter. The case cited by Respondent is a federal case decided by the second circuit and, as has been noted in the Petition, there is a divergence of opinion among the several circuits. It would serve no purpose to cite once again the cases which appear on pages 13 and 14 of the Petition. Because of this conflict of opinion among the several circuits this Petition has been filed for the purpose of having this Court render a decision which will decide the question and will insure the uniform administration of justice in the field of patent litigation.

The very question involved is dealt with in 167 A. L. R. 1145 wherein is discussed jurisdiction in actions involving patents and the question of suits founded on the wrongful use of confidential knowledge where a patent has issued after the institution of suit, and the effect thereof. We quote therefrom at p. 1145:

> "c. *Suits founded on the wrongful use of confidential knowledge.*
>
> 2. *Where a patent has been issued.*
>
> If the plaintiff has been granted a patent the case may be considered one of mere infringement and a state court may refuse to take jurisdiction unless contractual rights are declared on. In a case where the plaintiff had obtained a patent after bringing his suit, the court refused to entertain it further. A salesman

employed by the plaintiff to sell a device had, as incidental to his employment, obtained knowledge of the secret principle upon which the device was based. It was admitted that the court might enjoin him from making the device while the plaintiff's application for a patent was pending; but the court held that upon the plaintiff's obtaining the patent during the proceeding the issue became one as to infringement, and the court would not entertain jurisdiction." *Kelly Mfg. Co.* v. *Brower,* (1925), 1 Tenn. App. 428.

III.

CONCLUSION

By reason of the foregoing it is respectfully submitted that a federal question is involved in the instant matter and that a writ of certiorari should be issued by this Honorable Court.

Respectfully submitted,

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